THE YIELD CURVE

Inflation's Comeback Changes the Game

HIGHLIGHTS

- The Federal Reserve (Fed) waited a year after its first key rate hike to order a second, then picked up the pace with a second consecutive 0.25% quarterly increase in mid-March. Investors were, however, reassured by the fact that Fed leaders did not signal faster monetary policy firming in the coming quarters.
- Even if the Fed takes a break on monetary firming in June, bond yields should gradually go up, taking the U.S. 10-year yield to around 3% at the end of 2017.
- The persisting weak inflation in the advanced economies has given way to inflation that is very close to the level the central banks are targeting. The Fed is thus not the only central bank that has changed its stance in recent months. The change is especially striking in Europe.
- Although Canadian economic conditions are more favourable, the monetary authorities should opt for caution given the major uncertainties, extending the status quo on key interest rates until the summer of 2018. The spread between U.S. and Canadian short-term rates should therefore widen further in the coming quarters.
- Corporate bonds continue to generate good returns, especially lower-quality bonds. Sustained demand has brought many issuers back to the market after a lacklustre 2016.

The Federal Reserve (Fed) waited a year after its first key rate hike to order a second, then picked up the pace with a second consecutive 0.25% quarterly increase in mid-March. This monetary firming move, not expected a few weeks ago, did not scare investors. They were reassured by the fact that Fed leaders did not signal faster monetary policy firming in the coming quarters. The U.S. 10-year yield continued to oscillate around 2.50%, while the U.S. dollar weakened. Are the markets right to think the Fed is still dovish, that is, hesitant to firm up its monetary policy?

Fed in Firming Mode

Last year, we criticized the Fed for constantly signalling monetary tightening while finding one reason after another to keep its monetary policy steady. In our opinion, the Fed's actions are much more important than changes to its forecasts and we do not share the reading of mid-March's monetary firming as dovish. On the contrary, a second consecutive quarterly increase despite the U.S. economy's modest growth at the end of 2016 and, in all likelihood, the first quarter of 2017, is a clear signal that last year's hesitation is behind us and the Fed is now in true firming mode.

The Fed's statements are also quite clear on this point. In addition to remarking on the job market improvement, March's statement was adjusted to say that inflation was now close to the target of 2%. Chair Janet Yellen was also positive in her press conference, making little fuss over the weak real GDP growth at the start of the year and saying that "GDP is a pretty noisy indicator." Her main message for the public is that the U.S. economy is doing well and the Fed has confidence in its robustness and resilience in the face of shocks. In this context, the Fed plans to keep bringing its key rates up gradually.

CONTENTS

Highlights and editorial....................................... 1
Monetary policies
Federal Reserve ..... 3 Bank of Canada......... 4
Overseas central bank 5
Bond market
United States........ 6 Canada 7
Provinces 8
Tables
Key rates.. 9
Fixed income market......................................10

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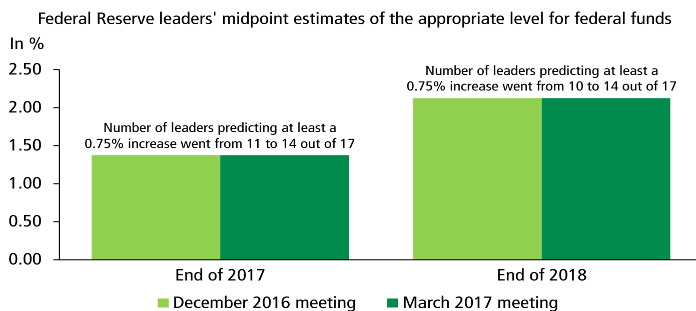
Even the much-touted leader outlooks on the appropriate level for key rates at year-end do not point to a hesitant Fed (graph 1). Although the midpoint projections have not changed for the end of 2017 and 2018, note that a strong majority of the leaders—14 out of 17—now predict it will be appropriate to raise key rates by 0.75% or more every year. We shared the markets' scepticism last December about the signal of three 0.25% U.S. key rate increases in 2017. Now, however, this scenario is a lot more credible given that the Fed delivered the goods in March.

GRAPH 1
Federal Reserve leaders continue to signal three increases a year, but more confidently

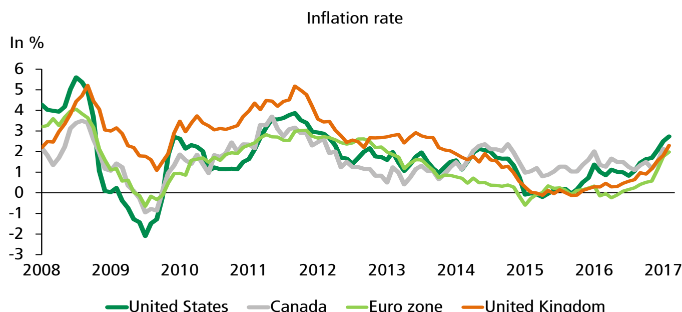


Sources: Federal Reserve and Desjardins, Economic Studies

Other Central Banks Are Changing Their Tone

The Fed's attitude now seems very different than what we had gotten used to in recent years. The main reason could well be that the persisting weak inflation in the advanced economies has given way to inflation that is very close to the level the central banks are targeting (graph 2). In most cases, the rapid upswing in inflation primarily reflects the rebound by gas prices, and not true internal inflationary pressure. Despite this, it seems it was much easier for central banks to maintain highly accommodative monetary policy when inflation was well below their targets.

GRAPH 2
Inflation increases across the board



Sources: Datastream and Desjardins, Economic Studies

The Fed is thus not the only central bank that has changed its stance in recent months. The change is especially striking in Europe. Although the Bank of England seemed to have started a long monetary easing program last summer after the vote for Brexit, surging inflation quickly forced it to take a more neutral position, with one leader even now in favour of a key rate increase. Even the European Central Bank seems a lot more confident, to the point of contemplating tightening its monetary policy more quickly than its forward guidance had suggested. The Bank of Canada could also adjust its tone somewhat shortly, given that inflation is up and the Canadian economy is doing well.

Watch Out for Complacence on the Bond Market

The fact that several central banks have changed their tone does not mean they will start raising their key rates as well shortly. However, they could be a lot more hesitant about announcing new stimulus. With the Fed seemingly determined to tighter its monetary policy up and everything suggesting that discussions will shortly heat up on reducing its bond holdings, the calm in the bond market is somewhat surprising, given that its main pillars of recent years seem poised to vanish.

The recent weakness in oil prices and signs it will take some time for Americans to see the tax cuts promised by the new president have certainly had a hand in the bond market's resilience. However, for the moment, there are no signs that the surge in confidence that followed Donald Trump's win will collapse. In this context, and even if the Fed takes a break on monetary firming in June, bond yields should gradually go up, taking the U.S. 10-year yield to around 3% at the end of 2017. If it persists, the false perception that the Fed is still dovish could help the bond market in the near term, but that would open the door to a harsher correction after that, as happened last fall.

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Federal Reserve (Fed)

A Break in June?

FORECASTS
Following the 25-point increase that occurred on March 15, two other key rate hikes are forecast for 2017, which leaves room for the Fed to take a break in June. Three further 25-point increases are expected in 2018.

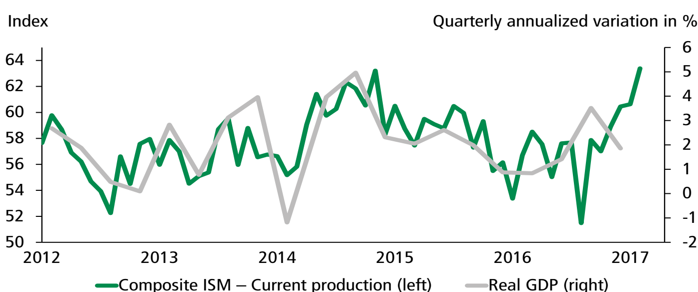
On March 15, the Fed proceeded with the third rate hike in this monetary policy normalization cycle. The move followed a 25-basis-point increase in December 2015, and one last December. The top of the target range for the federal funds rate is now at 1.00%. This is what it was before the last key rate cut in December 2008.

Two rate hikes in three months suggests a faster pace, which contrasts with Fed leaders' prudent nature. Moreover, the markets only started to contemplate the latest rate increase in late February. Although numerous economic indicators had improved, futures market players had to be pushed in that direction by the public remarks made by many Fed leaders.

Could this new rate hike pace become the standard? Yes, and no. Fed leaders' median forecast calls for two further 25-point hikes in 2017, and three hikes in 2018. This is faster than the previous pace—one hike a year—but it is not one hike per quarter either. We can therefore expect a pause in 2017 and another one in 2018. But when?

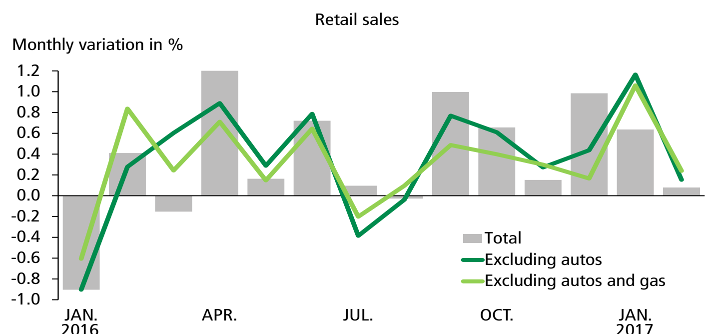
The economic and political contexts could give us an idea. Many indicators have been showing solid improvement since last fall, in particular consumer confidence, which suggests some acceleration by household spending. For their part, the ISM indexes are pointing to faster growth by investment and overall economic growth (graph 3). The job market is also delivering good performances. Lastly, it seems like inflation is strengthening. All these factors persuaded the Fed to go forward with March's rate increase. However, despite these encouraging factors, real GDP should post modest growth in early 2017. Retail sales have been disappointing (graph 4), consumption of services promises to be very weak due to the temperature, the trade deficit worsened, and we can expect a negative contribution from public spending. Moreover, the tax cut announcements that were expected to come at the end of this spring seem to be bogged down in the White House and Congress political agendas. Weaker than initially forecast economic growth in the first quarter and budget stimulus that should be felt in 2018 rather than 2017 could make the Fed hem and haw over the next rate hike. June could be sacrificed, leaving room for additional increases in September and December. In 2018, the pause should come in March while waiting to see the real impacts of the policies the Trump administration should introduce.

GRAPH 3
The ISM indexes suggest good economic growth in the United States



Sources: Conference Board, Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 4
U.S. retail sales growth was anemic in February



Sources: U.S. Census Bureau and Desjardins, Economic Studies

Bank of Canada (BoC)

Economic Conditions Are Improving, But the Status Quo Will Persist

FORECASTS

Although economic conditions are more favourable, the monetary authorities should opt for caution given the major uncertainties, extending the status quo on key interest rates until the summer of 2018. The spread between U.S. and Canadian short-term rates should therefore widen further in the coming quarters.

The second half of 2016 ended with a clear acceleration of Canada's economic growth, and the outlook for 2017 is looking fairly good. Among other things, real GDP growth should be quite strong in the first quarter of 2017: the carryover is relatively big given the sustained increase in real GDP by industry in November and December of 2016, and everything suggests January 2017 will also be lively. Among other things, the volume of manufacturing, wholesale and retail sales increased substantially that month. We are therefore expecting an increase of just under 3% for the first quarter.

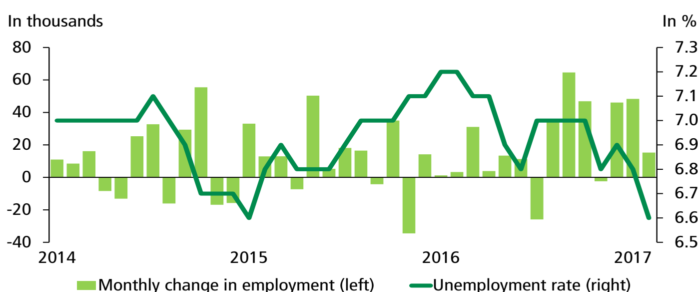
Real GDP growth should also stay above production potential (which the BoC puts at around 1.5%) for the rest of 2017. Thus, 2017 could end with real GDP growth of 2.2%, after gains of just 0.9% in 2015 and 1.4% in 2016. That being said, the Canadian economy should still have excess production capacity in 2017, which will limit upside pressure on prices.

The labour market has also improved substantially, creating a total of 254,300 jobs since August 2016. We have not seen this much of a surge in this little time since spring 2007 (graph 5). The unemployment rate went from 7.2% in early 2016 to 6.6% in February 2016. This rippled into consumer confidence, which jumped 9 points in February, putting it well above its historic average for the first time since the start of 2015.

Inflation has also advanced substantially in recent months. The total consumer price index annual change rose to 2.1% in January, edging above the BoC's midpoint target (2%) for the first time since the fall of 2014 (graph 6). Although temporary effects are largely responsible for the increase, it should still reassure the monetary authorities, who had been concerned about the lingering weak inflation. On the other hand, the three new core measures are highly stable and remain just below the midpoint target.

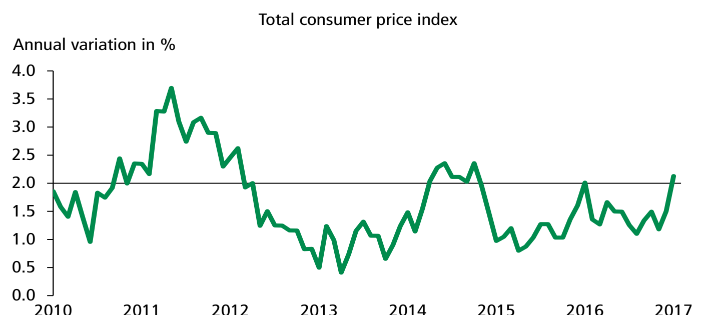
However, the many uncertainties surrounding the economic outlooks persist. These include the uncertain future of the North American Free Trade Agreement (NAFTA); the rising protectionism south of the border is creating a lot of anxiety and putting the brakes on growth by business investment. The potential impact of future U.S. government tax measures on Canadian business competitiveness is also a source of concern.

GRAPH 5
The job market has been lively in recent months



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 6
Total inflation has edged above the midpoint target



Sources: Statistics Canada and Desjardins, Economic Studies

Overseas Central Bank

Scenarios Involving Further Easing Are Less Likely

EUROPEAN CENTRAL BANK (ECB)

As announced in December, the pace of securities purchases will drop from €80B to €60B a month in April. The ECB still believes it will have to keep making the purchases until the end of this year. Nonetheless, its tone seems more optimistic. Firstly, its forecasts for economic growth and inflation were revised upward in March. Then, Mario Draghi remarked that the downside risks to the economy had waned. Lastly, the Governor of the National Bank of Austria, Ewald Nowotny, stated that the ECB could raise its deposit rate before its refinancing rate, without waiting for the securities purchasing program to wrap up.

This change of tone certainly makes it less likely that further easing measures will be announced. However, it seems premature to contemplate monetary firming in the euro zone. The recent increase in inflation has not generalized to all prices. Core inflation, which excludes food and energy, is holding at around 1% (graph 7). No inflationary pressure is coming from the employment market, and Europe's financial system still seems to need ECB intervention to remain stable.

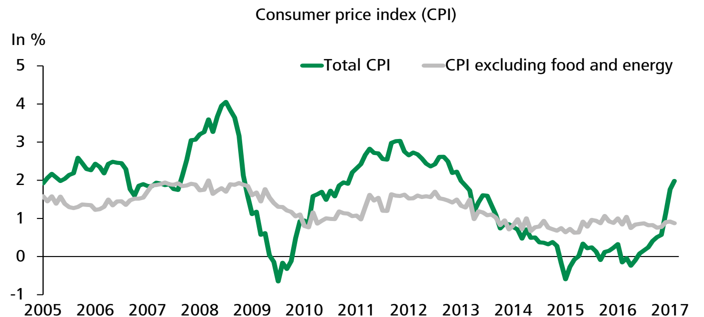
BANK OF ENGLAND (BoE)

The BoE has almost completed the security purchases it announced last August in response to Brexit (graph 8). However, Britain's economy has been resilient in the last few quarters, and inflation has come up, complicating the BoE's job. The BoE still thinks the economy will slow. It is therefore giving the impression that it will maintain an extended status quo to facilitate the upcoming adjustments. It could even temporarily accept a higher inflation rate. Still, one monetary policy committee member voted for an interest rate hike in March, fuelling speculation about the upcoming trajectory for rates if the slowdown forecast by the BoE is slow in materializing.

BANK OF JAPAN (BoJ)

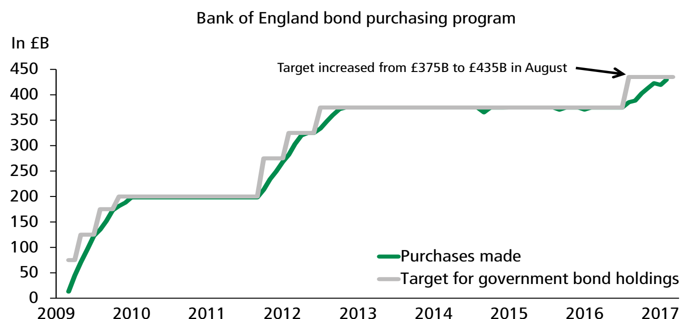
Inflation remains very weak in Japan, but there are no signs that the BoJ could announce additional measures. Since September, the pace of securities purchases has been partly determined based on hitting a target of about 0% for Japan's 10-year bond yield, which is now holding just above that target (graph 9). The pressure could intensify on the pace of securities purchases given a new surge by bond yields worldwide.

GRAPH 7
In the euro zone, core inflation has not rebounded like total inflation



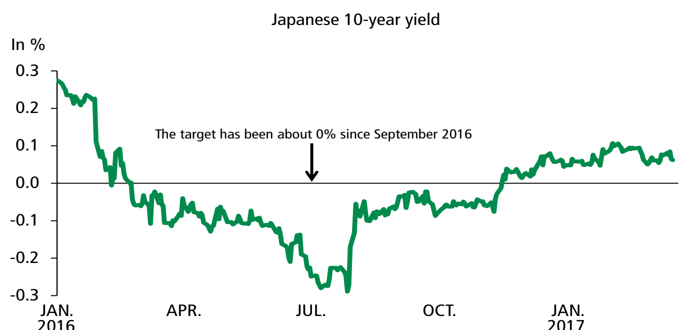
Sources: Datastream and Desjardins, Economic Studies

GRAPH 8
U.K. government bond holdings are close to target



Sources: Datastream and Desjardins, Economic Studies

GRAPH 9
Japan's 10-year yield is holding just above target



Sources: Datastream and Desjardins, Economic Studies

Bond Market

The Stars Are Aligned for Yields Continuing to Trend Upwards

FORECASTS

After the tightening performed by the Federal Reserve (Fed) on March 15, markets remain cautious, expecting only another increase this year. However, the Fed seems more and more willing to follow the path it indicates at the beginning of the year, as its objectives are about to be reached. We thus anticipate three hikes. This should continue to drive bond yield upwards, and we expect the 10-year benchmark to end the year at 3.00%.

The Canadian economy seems to be enjoying a good momentum, which makes North American economic divergence appear less pronounced than a few months ago. Markets nonetheless believe that the Bank of Canada (BoC) should remain patient until 2018, a view that we share. In order to keep short-term rates reasonably anchored, the BoC's rhetoric will put the emphasis on international trade risks, as it awaits more precisions on this topic later in the year. In this context, even though the 10-year yield is expected to reach 2.00% in the summer, the expected yield increases in Canada are lower than those in the United States, at all maturities.

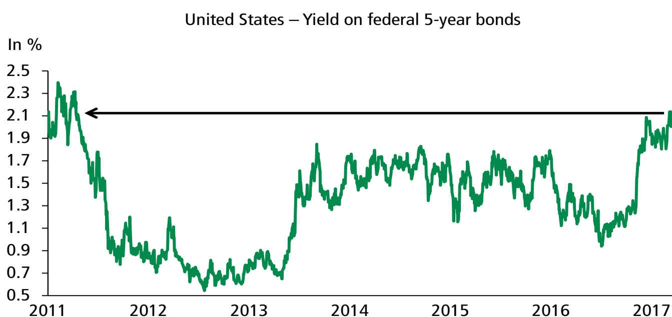
U.S. FEDERAL BONDS

At the start of the year, after bond yields skyrocketed following the U.S. presidential election, caution seemed to be in order. The lack of certainty about a variety of critical variables in Donald Trump's economic and budgetary policy even suggested that yields could edge back. In the first quarter, the details on Donald Trump's policies on taxation, public investment, regulations and international trade came at a snail's pace. Nonetheless, Treasury Secretary Steven Mnuchin suggested that the government had a lot of work to do, to the point that it would be next year before the economic effects would be felt. These relatively sober comments did not reverse the optimism-driven market movement. On the contrary, bond yields could end the first quarter up slightly from where they were on December 30.

While the new U.S. government has given investors little to chew on, the Fed, on the other hand, has worked to restore the credibility of its signals. The particularly robust confidence and job market indexes smoothed its path. In early March, Fed heavyweights insisted that a rate hike was imminent. Investors remained sceptical, remembering the many rate hikes signalled in the last two years, with only two rate hikes actually ordered. Faced with the officials' persistence and continually surprising data, the markets finally woke up, driving yields in the short and middle part of the U.S. curve. Among other things, on March 14, the day before the Fed's decision, the 5-year yield had climbed 33 basis points in just two weeks. It was at 2.13%, its highest level since 2011 (graph 10).

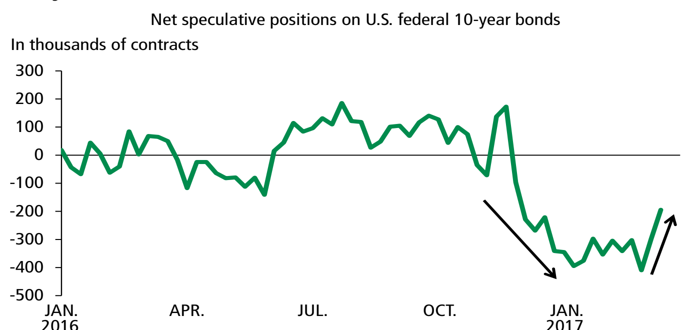
The Fed did in fact order a rate hike on March 15, but bond yields in all maturities went down in response. Some investors were expecting a more hawkish signal about what comes next. This was apparently true for those who had invested heavily in short positions on U.S. bonds (graph 11). With the Fed emphasizing the gradual aspect of its tightening campaign, many were moved to close out these positions.

GRAPH 10
Highest level in about six years for the 5-year yield



Sources: Bloomberg and Desjardins, Economic Studies

GRAPH 11
Speculators bet too heavily against bonds at the start of the year



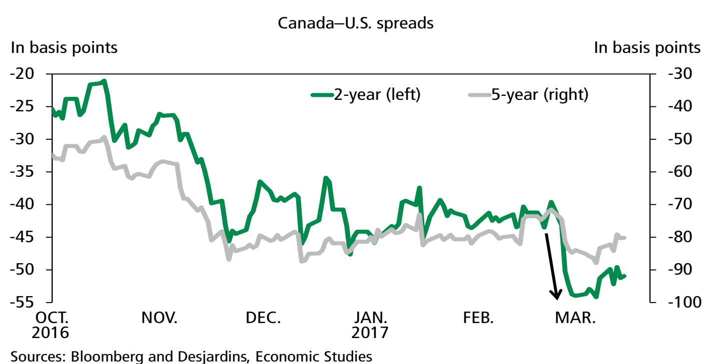
Sources: Commodity Futures Trading Commission and Desjardins, Economic Studies

As for what comes next, we expect to see two further key rate increases this year, which should prompt the 10-year yield to end the year at 3.00%. A persistent slide by yields seems to be more plausible in a scenario of strong global risk aversion, rather than a scenario of disappointment with Donald Trump's policies. The delays in developing and implementing the economic program do not necessarily mean that the promised reforms will be abandoned. Republicans control both houses of Congress, so the markets could keep giving the government the benefit of the doubt. In other words, they will probably keep banking on policies that stimulate growth, inflation and business profits over the medium range, all factors that are compatible with an uptrend for bond yields, rather than the opposite.

CANADIAN FEDERAL BONDS

Canadian yields did not go up as quickly as U.S. yields last fall, but they showed the same stability in the early months of 2017. In January and February, the Canadian 10-year yield stayed between 1.60% and 1.80%. March's new surge in by U.S. yields was not really replicated in Canada, with the result that spreads in all maturities widened further into negative territory (graph 12). Combined with the renewed weakness in oil prices, it helped drag the Canadian dollar down; the loonie had been surprisingly strong at the end of 2016.

GRAPH 12
North American yield spreads widen further



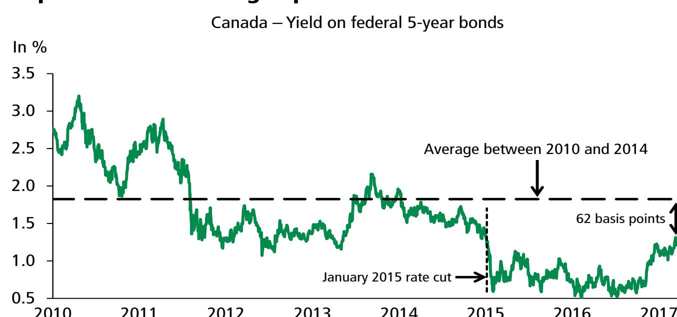
Sources: Bloomberg and Desjardins, Economic Studies

The BoC will no doubt be happy with this outcome, as it had considered the upswing in the loonie and yields to be inconsistent with the Canadian situation, then deemed fragile. However, this assessment might be subject to revision, as the economic indicators have been well above expectations recently. Not only did real GDP growth come in at 1.1 percentage points above the BoC's last forecast in the fourth quarter of 2016, but the first quarter of 2017 is heading for another substantial gain: we are currently expecting 2.7% growth for the year's first quarter, slightly faster than the previous quarter. The trends are good in several other areas, such as manufacturing, full-time employment and housing.

For investors, the central issue is the signals the BoC will send. Will it allow itself to be a little more optimistic, or will it keep the magnifier on the more worrisome factors? Since we can expect both of these to occur, everything will depend on the emphasis and words officials give in speeches in the run-up to the next meeting, to be held on April 12. In our opinion, the protectionist threat in the United States is serious enough for the BoC to remain on the side of caution. Markets are not pricing in a BoC hike before next year; opening the door to an earlier increase would trigger a tightening effect that the BoC probably does not want at this point.

The 5-year yield, which is having a central role in the Canadian economy and financial system, is still at 1.21%, but it is not hard to picture a situation in which a slightly less dovish stance from the BoC would send it to 1.83% on average, which is where it was between the start of 2010 and the January 2015 rate cut (graph 13). Here, a simple adjustment in the stance could effectively amount to a full reversal of the 2015 rate cuts. Given how disruptive the decisions on international trade made south of the border could be, the BoC is probably not ready to kick off the expectations' mechanism. Because it will take at least two quarters for the issue to become less obscure, we think the BoC will remain clear on the fact that a Canadian rate hike is still in the distant future. To drive this message home, Stephen Poloz could continue to suggest that a rate cut is a possibility, if certain negative risks emerge.

GRAPH 13
A more hawkish tone from the Bank of Canada could completely wipe out the remaining impact of the 2015 rate cuts



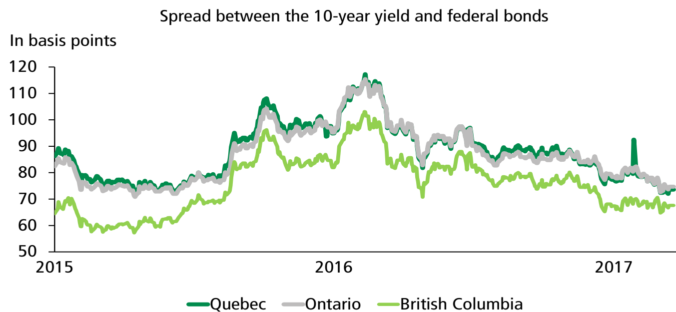
Sources: Bloomberg and Desjardins, Economic Studies

PROVINCIAL AND CORPORATE BONDS

Rising federal bond yields and a strong appetite for riskier asset classes mean that spreads for the major provinces have been subject to steady downside pressure. The spread between Ontario 10-year bond yields and federal 10-year bond yields fell to just 75 basis points, its lowest point since the summer of 2015. Quebec bonds are doing remarkably well. The spread between the Quebec 30-year yield and Ontario's recently went into negative territory, which has never been seen. Meanwhile,

British Columbia continues to benefit from the lowest borrowing costs among the provinces, backed by the enviable public finances that earned it an AAA rating (graph 14).

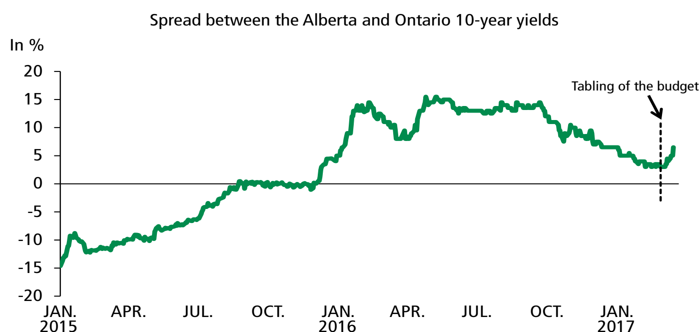
GRAPH 14
Provincial spreads remain fairly low



Sources: Bloomberg, Desjardins Securities and Desjardins, Economic Studies

The situation is much tougher for commodity producing provinces. Although, economically speaking, the worst is over, the damage is still visible. In March, the Alberta government announced a deficit of C$10.3B for fiscal 2017–2018, only C$500M better than the fiscal year that is wrapping up. The assumptions in its budget raised some eyebrows, as the province is banking on WTI (West Texas Intermediate) oil prices of around US$55 on average in 2017. Although not extraordinarily optimistic, this cannot be called a conservative assumption. Oil prices recently dropped below US$50, attesting to the volatility that could compromise the government's projection. According to its sensitivity analysis, a WTI oil price just US$1 below the scenario would trigger a C$310M shortfall for the government, which is more than half the C$500M contingency provision. For the next three years, the forecast deficits amount to C$27.2M, and the lack of a detailed strategy for budget consolidation does not seem to sit well with ratings agencies. Alberta's spreads have widened since the budget was tabled (graph 15).

GRAPH 15
Alberta's spread widened after the budget was tabled



Sources: Bloomberg, Desjardins Securities and Desjardins, Economic Studies

Corporate bonds continue to generate good returns, especially lower-quality bonds. Sustained demand has brought many issuers back to the market after a lacklustre 2016. However, this asset class benefited extensively from the surge in optimism that followed Donald Trump's win. Among others, bonds in sectors that could benefit from the new administration's measures, like materials, energy and the financial sector, have been sought after. The fact remains that monetary tightening cycles often play against corporate bonds, especially lower-quality bonds. The wind could therefore shift, especially if the markets buy into the hypothesis of two additional Fed increases this year. For now, the futures markets are only pricing in one more increase.

TABLE 1
Key interest rates

END OF PERIOD IN %	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
United States												
Federal funds	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.50	1.50	1.75	2.00	2.25
Canada												
Overnight funds	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
Zone euro												
Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05
United Kingdom												
Base rate	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan												
Main key rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

TABLE 2
Schedule and key rates

Date	Central banks	Decision	Rate
December			
15	Bank of England	s.q.	0.25
15	Bank of Norway	s.q.	0.50
15	Bank of Mexico	+50 b.p.	5.75
15	Swiss National Bank	s.q.	-0.75
19	Bank of Japan	s.q.	-0.10
21	Bank of Sweden	s.q.	-0.50
January			
11	Bank of Brazil	-75 b.p.	13.00
12	Bank of Korea	s.q.	1.25
18	Bank of Canada	s.q.	0.50
19	European Central Bank	s.q.	0.00
30	Bank of Japan	s.q.	-0.10
February			
1	Federal Reserve	s.q.	0.75
2	Bank of England	s.q.	0.25
6	Reserve Bank of Australia	s.q.	1.50
8	Reserve Bank of New Zealand	s.q.	1.75
9	Bank of Mexico	+50 b.p.	6.25
15	Bank of Sweden	s.q.	-0.50
22	Bank of Korea	s.q.	1.25
22	Bank of Brazil	-75 b.p.	12.25
March			
1	Bank of Canada	s.q.	0.50
6	Reserve Bank of Australia	s.q.	1.50
9	European Central Bank	s.q.	0.00
15	Federal Reserve	s.q.	0.75
15	Bank of Japan	s.q.	-0.10
16	Bank of England	s.q.	0.25
16	Bank of Norway	s.q.	0.50
16	Swiss National Bank	s.q.	-0.75
22	Reserve Bank of New Zealand	s.q.	1.75

s.q.: statu quo; b.p. : basis points
Source: Desjardins, Economic Studies

TABLE 3
Next meetings

Date	Central banks
March	
30	Bank of Mexico
April	
4	Reserve Bank of Australia
12	Bank of Korea
12	Bank of Brazil
12	Bank of Canada
26	Bank of Japan
27	European Central Bank
27	Bank of Sweden
May	
2	Reserve Bank of Australia
3	Federal Reserve
4	Bank of Norway
10	Reserve Bank of New Zealand
11	Bank of England
18	Bank of Mexico
24	Bank of Korea
1	Bank of Canada
31	Bank of Brazil
June	
6	Reserve Bank of Australia
8	European Central Bank
14	Federal Reserve
15	Bank of England
15	Bank of Japan
15	Swiss National Bank
21	Reserve Bank of New Zealand
22	Bank of Norway
22	Bank of Mexico
July	
4	Reserve Bank of Australia

Source: Desjardins, Economic Studies

TABLE 4
United States: Fixed income market

END OF PERIOD IN %	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1f	2017 Q2f	2017 Q3f	2017 Q4f	2018 Q1f	2018 Q2f	2018 Q3f	2018 Q4f
Key interest rate												
Federal funds	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.50	1.50	1.75	2.00	2.25
Treasury bills												
3-month	0.21	0.26	0.29	0.51	0.75	0.85	1.05	1.30	1.35	1.60	1.85	2.05
Federal bonds												
2-year	0.75	0.58	0.76	1.17	1.35	1.50	1.65	1.80	1.80	2.10	2.30	2.45
5-year	1.21	1.00	1.15	1.92	2.00	2.20	2.40	2.50	2.50	2.80	3.00	3.05
10-year	1.78	1.49	1.61	2.45	2.50	2.70	2.90	3.00	3.00	3.20	3.35	3.40
30-year	2.62	2.31	2.33	3.06	3.10	3.25	3.35	3.40	3.40	3.50	3.60	3.65
Yield curve slopes												
5-year - 3-month	1.00	0.74	0.86	1.41	1.25	1.35	1.35	1.20	1.15	1.20	1.15	1.00
10-year - 2-year	1.03	0.91	0.85	1.27	1.15	1.20	1.25	1.20	1.20	1.10	1.05	0.95
30-year - 3-month	2.41	2.05	2.04	2.55	2.35	2.40	2.30	2.10	2.05	1.90	1.75	1.60

f: forecasts
Sources: Datastream and Desjardins, Economic Studies

TABLE 5
Canada: Fixed income market

END OF PERIOD IN %	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1f	2017 Q2f	2017 Q3f	2017 Q4f	2018 Q1f	2018 Q2f	2018 Q3f	2018 Q4f
Key interest rate												
Overnight funds	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
Treasury bills												
3-month	0.44	0.49	0.53	0.46	0.50	0.55	0.55	0.55	0.60	0.70	0.85	0.95
Federal bonds												
2-year	0.54	0.52	0.52	0.75	0.80	0.90	0.95	1.00	1.00	1.15	1.35	1.45
5-year	0.67	0.57	0.62	1.12	1.20	1.30	1.45	1.50	1.50	1.75	1.95	2.10
10-year	1.23	1.06	1.00	1.72	1.75	1.90	2.00	2.05	2.05	2.20	2.40	2.50
30-year	2.00	1.71	1.66	2.31	2.40	2.55	2.60	2.60	2.60	2.65	2.70	2.75
Yield curve slopes												
5-year - 3-month	0.23	0.08	0.09	0.66	0.70	0.75	0.90	0.95	0.90	1.05	1.10	1.15
10-year - 2-year	0.69	0.54	0.47	0.97	0.95	1.00	1.05	1.05	1.05	1.05	1.05	1.05
30-year - 3-month	1.56	1.22	1.13	1.85	1.90	2.00	2.05	2.05	2.00	1.95	1.85	1.80
Yield spreads (Canada—United States)												
3-month	0.23	0.23	0.24	-0.05	-0.25	-0.30	-0.50	-0.75	-0.75	-0.90	-1.00	-1.10
2-year	-0.22	-0.06	-0.24	-0.43	-0.55	-0.60	-0.70	-0.80	-0.80	-0.95	-0.95	-1.00
5-year	-0.54	-0.43	-0.53	-0.80	-0.80	-0.90	-0.95	-1.00	-1.00	-1.05	-1.05	-0.95
10-year	-0.56	-0.43	-0.61	-0.73	-0.75	-0.80	-0.90	-0.95	-0.95	-1.00	-0.95	-0.90
30-year	-0.62	-0.59	-0.67	-0.75	-0.70	-0.70	-0.75	-0.80	-0.80	-0.85	-0.90	-0.90

f: forecasts
Sources: Datastream and Desjardins, Economic Studies